



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER


Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

DOCUMENTS DEPT

AUDIT MEMORANDUM

APR 21 2008

DATE: April 7, 2008
TO: Matthew O. Franklin, Director, Mayor's Office of Housing
FROM: Ben Rosenfield, Controller 
SUBJECT: Report on Management Letter Follow-up

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INTRODUCTION

This memorandum provides the results of the City Services Auditor Division's follow-up review of its February 6, 2006, management letter to the Mayor's Office of Housing (MOH).

The management letter concerned our findings and recommendations resulting from our audit of Mission Housing Development Corporation. During that audit, we found weaknesses in two areas of MOH's loan management: monitoring borrowers' compliance with loan terms, and the accurate reporting of borrowers and loan balances. Our recommendations to MOH regarding its loan database and annual loan monitoring processes included:

- Establish procedures to adequately monitor and document monitoring of loan compliance.
- Research and update the loan database to include the actual obligated entity and the actual balance due on each outstanding loan.
- Incorporate into the loan database monitoring information, including: date and from whom MOH requested annual monitoring reports; a list of documents requested for each report; the date of receipt of each report; a determination on each report's acceptability; and documentation of supervisory review of each report.

In March 2007, we met with you and your staff to discuss a follow-up review of MOH's loan monitoring practices and the accuracy of its loan balance reporting. Our review would assess whether MOH had implemented the recommendations we made in the February 6, 2006, management letter. We also informed you that we may conduct work in the area of loan eligibility to determine whether further work should be performed.

BACKGROUND & METHODOLOGY

MOH provides financing for the development, rehabilitation, and purchase of affordable housing in San Francisco. It also guides and coordinates the City's housing policy. MOH's responsibilities include:

- Administering a number of programs to finance the development of affordable housing.
- Providing financial and educational assistance to first-time homebuyers.
- Financing housing rehabilitation costs for low-income homeowners.
- Administering specialized programs such as the Seismic Safety Loan Program, the City's Surplus Property Program, and the Lead Hazard Reduction Program.
- Ensuring the long-term affordability and physical viability of the City's stock of affordable housing.

MOH uses databases of several different types for tracking individual borrowers and loan amounts, and for recording its compliance monitoring activities. Most of its loans are recorded in an Access database. In addition, MOH maintains several Excel schedules of individual borrowers and loan amounts for single-family loan programs that are not in this Access database. Using the data in the loan database, MOH staff has developed a schedule in which it records its loan compliance monitoring activities for each of its multi-family property loans. The compliance of borrowers and participants in programs that relate to single-family properties are monitored in a separate Excel spreadsheet.

Beginning in March 2007, we interviewed members of your staff, conducted limited file reviews, reviewed internal policies and procedures, and examined loan and monitoring databases. Our work focused on the extent to which loan monitoring weaknesses cited in the February 6, 2006 management letter had been corrected.

FINDINGS & CONCLUSIONS

We found that:

- MOH was actively monitoring loan compliance for both single- and multi-family loans in 2006.
- In the aggregate, MOH's loan databases report an accurate balance of total loans which reconciled with the balance of total loans reported in the City's financial system and the loan portfolio amount shown in the City's Comprehensive Annual Financial Report for fiscal year 2006.
- MOH has drafted loan monitoring policies and procedures, but those were not approved in final form as of June 2007.
- Loan monitoring databases for single-family and multi-family loans require further development to fully capture essential loan and monitoring information.

In seeking to verify whether the single-family monitoring database was complete, we initially found there were 71 single-family loan records in the Access loan database and 15 single-family loan records in one of the Excel loan schedules that were not in the single-family monitoring database. Subsequent research by MOH staff resolved most of these discrepancies. According to MOH staff, a number of loans were not listed in the single-family monitoring database because they have been paid off and no longer required monitoring. Also, several loans from an older, inactive program that no longer requires monitoring did not need to be in the single-family monitoring database.

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MOH staff also informed us that one record we did not find was actually a multi-family loan that was incorrectly identified in the loan database as a single-family loan. This loan does not appear in the multi-family loan monitoring database. In addition, there were some loan records that had variations in spellings of names or addresses which prevented us from matching records between the two databases, but upon further research we found were properly accounted for. At the conclusion of this comparison, there remained seven loan records that MOH staff agreed were not in the single-family monitoring database that should have been. Loans from several other single-family loan schedules that are not a part of MOH's Access loan database were not part of this analysis, and we did not compare them to the single-family monitoring database.

This comparison also did not include single-family properties which require monitoring for reasons other than loan compliance. Our review did not include verification that non-loan properties, which nevertheless might have compliance requirements such as continued occupancy or granting to the City first right of refusal upon sale, were properly included in the single-family monitoring database.

MOH staff informed us that the department plans to replace the existing databases and other loan schedules with one system that will contain all loan data for single- and multi-family loans, including loan monitoring information. A unified database will make tracking, monitoring, and reporting loan information simpler and less prone to error. However, until a new system is implemented, MOH should have a procedure to verify that the single-family loan monitoring database is complete and accurate. This would ensure that all single-family loans recorded in the department's loan database and in the supplemental schedules used for financial reporting are also recorded in the database used for monitoring purposes.

Recommendations

In order to maintain adequate stewardship of the public resources that fund its affordable housing programs, the Mayor's Office of Housing should take the following steps to ensure that the information in its databases is complete and correct:

1. Finalize its draft policies and procedures for monitoring loan and other housing programs.
2. Complete its acquisition and implementation of a new property database that will contain all data for both multi-family and single-family properties.
3. For its current system of non-communicating databases, formally reconcile all of its loans to its monitoring databases on a periodic basis to ensure completeness of all data sets.
4. Ensure that it has some way of verifying that its monitoring databases include all properties that still require monitoring for any program covenants, such as first right of refusal or residency, whether or not the property has received a loan from the City.

With respect to our review of loan eligibility, we discussed with your staff eligibility criteria for different loans in order to gain an understanding of the scope of work we would need in order to conduct an audit of this area, and determined that further work would require more resources from our office than we had available at the time. Our intent is to return in the future to examine the issue of eligibility. Until such time, we will not be conducting

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further performance audit work at MOH. However, MOH should consider engaging a contract underwriter to review files for compliance with eligibility and other program underwriting criteria.

We would like to extend our appreciation to you and all your staff who spent time working with us and answering our questions. If you have any questions or concerns about this letter, please call Debbie Gordon, Audit Manager, at (415) 554-7414, or e-mail her at Deborah.Gordon@sfgov.org.

cc: Peg Stevenson, City Services Auditor Director
Robert Tarsia, Deputy Audit Director

DEPARTMENT RESPONSE

MAYOR'S OFFICE OF HOUSING CITY AND COUNTY OF SAN FRANCISCO



GAVIN NEWSOM
MAYOR

MATTHEW O. FRANKLIN
DIRECTOR

DATE: March 28, 2008
TO: Ed Harrington, Controller
FROM: Matthew Franklin, Director *MF* Mayor's Office of Housing
RE: Response to 2008 Audit Memorandum

This memo acknowledges receipt of the Controller's Office 2008 Audit Memorandum concerning the follow-up to the February 6, 2006 management letter to the Mayor's Office of Housing (MOH) and provides responses to the recommendations made in the memorandum.

The Mayor's Office of Housing ("MOH") was pleased to read the Controller's Audit memorandum confirming the adequacy of MOH's monitoring activities and the accuracy of MOH's databases.

MOH is also pleased to report that our department has made considerable progress toward implementing the recommendations supplied by the Controller. See below for a listing of the recommendations and MOH's response to each.

Please contact me if you have any questions about MOH's responses to these recommendations. And thank you for your important work on behalf of the City.

Recommendation #1:

MOH should finalize its draft policies and procedures for monitoring loan and other housing programs.

MOH Response:

MOH has finalized the policies and procedures manuals for monitoring. See attached MOHMultiFamilyRentalMonitoringManual.pdf and MOHSingleFamilyMonitoringAndServicingManual.pdf.

Recommendation #2:

MOH should complete its acquisition and implementation of a new property database that will contain all data for both multi-family and single-family properties.

MOH Response:

MOH agrees with the recommendation and is moving forward with implementation of the database. MOH began implementing solutions to its database needs in 2007. After considering

1 South Van Ness Avenue, Fifth Floor, San Francisco, CA 94103
Phone: (415) 701-5500 Fax: (415) 701-5501 TDD: (415) 701-5503 www.sfgov.org/moh

and ultimately rejecting one potential vendor, MOH has been working with its IT staff to find a vendor that more appropriately addresses the disparate needs of the single-family and multifamily programs.

The search has yielded a well-regarded vendor for the multifamily programs. The system components will mix off-the-shelf software from this vendor with custom solutions developed in-house from existing, tested technology. Initial components are scheduled for implementation within the next three months.

For single-family programs, MOH concluded that there were short-term needs that had to be addressed while searching for appropriate off-the-shelf software. That work has focused on developing a custom database solution that is 75% through its development process.

The phased approach to testing and implementation allows MOH to avoid imposing burdens upon multiple staff simultaneously with the tasks associated with implementation and testing. The phased approach also allows MOH to renegotiate with the vendor if problems are encountered during the implementation process.

Overall, MOH expects the testing and implementation period to span until late 2009.

Recommendation #3:

For its current system of non-communicating databases, MOH should formally reconcile all its loans to its monitoring databases on a periodic basis to ensure completeness of all data sets.

MOH Response:

MOH has created a system for reconciling on a quarterly basis the loans that are currently stored in stand-alone databases against the master list of properties to be monitored. See section III-C-1 in the attached [MOHSingleFamilyMonitoringAndServicingManual.pdf](#) for a full description of the procedures.

Recommendation #4:

MOH should ensure that it has some way of verifying that its monitoring databases include all properties that still require monitoring for any program covenants, such as first right of refusal or residency, whether or not the property has received a loan from the City.

MOH Response:

MOH has implemented a system of regular reporting on all closed units that require monitoring for occupancy for incorporation of the data in the monitoring database. Activity reports for these programs will be reconciled with the monitoring database on a quarterly basis. See sections IV-B-1 & IV-C-1 in the attached [MOHSingleFamilyMonitoringAndServicingManual.pdf](#) for a full description of the procedures. (Clarification: Right of first refusal does not require monitoring.)

Recommendation	Responsible Agency	Response
1. MOH should finalize its draft policies and procedures for monitoring loan and other housing programs.	MOH	MOH has finalized the policies and procedures for monitoring loan and other housing programs.
2. MOH should complete its acquisition and implementation of a new property database that will contain all data for both multi-family and single-family properties.	MOH	<p>MOH agrees with the recommendation and is moving forward with implementation of the database. MOH began implementing solutions to its database needs in 2007. After considering and ultimately rejecting one potential vendor, MOH has been working with its IT staff to find a vendor that more appropriately addresses the disparate needs of the single-family and multi-family programs. The search has yielded a well-regarded vendor for the multi-family programs. The system components will mix off-the-shelf software from this vendor with custom solutions developed in-house from existing, tested technology. Initial components are scheduled for implementation within the next three months.</p> <p>For single-family programs, MOH concluded that there are short-term needs that had to be addressed while searching for appropriate off-the-shelf software. That work has focused on developing a custom database solution that is 75% through its development process.</p> <p>The phased approach for testing and implementation allows MOH to avoid imposing burdens upon multiple staff simultaneously with the tasks associated with implementation and testing. The phased approach also allows MOH to renegotiate with the vendor if problems are encountered during the implementation process.</p> <p>Overall, MOH expects the testing and implementation period to span until late 2009.</p>

Recommendation	Responsible Agency	Response
3. For its current system of non-communicating databases, MOH should formally reconcile all its loans to its monitoring databases on a periodic basis to ensure completeness of all data sets.	MOH	MOH has created a system for reconciling on a quarterly basis the loans that are currently stored in stand-alone databases against the master list of properties to be monitored. See section III-C-1 in the attached MOH Single Family Monitoring and Servicing Manual for a full description of the procedures.
4. MOH should ensure that it has some way of verifying that its monitoring databases include all properties that still require monitoring for any program covenants, such as first right of refusal or residency, whether or not the property has received a loan from the City.	MOH	MOH has implemented a system of regular reporting on all closed units that require monitoring for occupancy for incorporation of the data in the monitoring database. Activity reports for these programs will be reconciled with the monitoring database on a quarterly basis. See sections IV-B-1 & IV-C-1 in the attached MOH Single Family Monitoring and Servicing Manual for a full description of the procedures. (Clarification: Right of first refusal does not require monitoring.)



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

February 6, 2006

Matthew O. Franklin, Director
Mayor's Office of Housing
25 Van Ness Avenue, Suite 600
San Francisco, CA 94102

Subject: Management Comments in Connection With the Office of the Controller City Services Auditor's Performance Audit of Mission Housing Development Corporation, Inc.

Dear Mr. Franklin:

As part of our performance audit of the Mission Housing Development Corporation (MHDC), issued December 16, 2005, we reviewed one loan file in the Mayor's Office of Housing (MOH) to gain an understanding of the activities that MOH performs and the documentation it maintains regarding loans it provides to others. The documentation in the loan file, our review of several MOH loan schedules, and our discussions with MOH staff suggest that MOH does not adequately monitor and report on its loans. Our findings and recommendations are:

- 1) **Monitoring:** MOH does not maintain comprehensive documentation of its monitoring activities to determine whether it is adequately monitoring its loans and that borrowers are meeting all of the terms and conditions of their loans. Some specific deficiencies were that MOH did not:
 - a) Record when it sent requests for monitoring documents to its borrowers.
 - b) Maintain documentation of its reviews of monitoring reports received from borrowers.
 - c) Keep a record of the monitoring status of all of MOH's loans.

Insufficient documentation and tracking of the monitoring process may limit MOH's ability to determine whether borrowers are in compliance with the terms of their loans and hold noncompliant borrowers accountable for late or improper reporting. Further, inadequate tracking of the monitoring process makes it difficult for MOH managers to perform quality control reviews of MOH monitoring staff.

- 2) **Reporting:** MOH provided us listings of MHDC's outstanding loans that contained the following errors:
 - a) Some loans in the MOH database show balances due although the loans are no longer outstanding.

- b) MOH's database did not reflect MHDC's assignment of loans to other legal entities, or loans assigned by other legal entities to MHDC.
- c) The amount reported on the one loan we reviewed did not reflect that it had been amended to increase the principle for accrued interest.
- d) Some loans are reported at the amount approved rather than the amount disbursed.

MOH's inability to accurately report the status of its loans may prevent it from determining which entities are responsible for complying with loan terms, monitoring compliance on all of the loans in its portfolio, and verifying the current value of the loans.

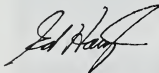
Recommendations:

We recommend that MOH take the following steps to better monitor and report on its loans:

1. Establish procedures to ensure that it adequately monitors and documents monitoring of its loans.
2. Research and update its database of loans outstanding to reflect the:
 - a. Actual obligated entity.
 - b. Actual balance due on each loan.
3. Incorporate into its loan database a detailed record of the monitoring activities for each loan, including:
 - a. Date and from whom MOH requested the annual monitoring report.
 - b. List of documents requested.
 - c. Date when MOH received the requested report.
 - d. MOH monitor's conclusion as to whether the report is reasonable and acceptable.
 - e. Documentation of supervisory review and approval of analysis and conclusion for each annual monitoring report.

We are advising you of these findings so that you can take the appropriate actions to resolve them. Please call Debbie Gordon, Financial Audit Manager, (415) 554-7414 or Deborah.Gordon@sfgov.org, if you have any questions.

Sincerely,



Ed Harrington
Controller

